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Hill, James Jerome

Credit and railways after the war

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CREDIT AND RAILWAYS AFTER THE WAR

PAPER BY

MR. JAMES J. HILL

READ AT A MEETING OF

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The business men of the country are occupying themselves, most properly, with efforts to adapt our interests to the great change of conditions resulting from the European war. Although outside the zone of conflict, we have to pay our tribute and bear our share of the burden. The government is promoting measures looking to the strengthening of our finances, the provision of a merchant marine and the raising of supplementary revenue. Everywhere there is thoughtful study of conditions. Only in mutual co-operation can the sacrifices which a great war imposes on all the nations be lightened. On the whole, the immediate crisis created by the war has been met with wisdom, and its necessary evils combatted with no small measure of success.

The country would, however, be foolish, and a gathering like this would stop short of its duty and its opportunity if it did not go further; if it did not

examine some of the other needs which have thus far been put off until a more convenient season; if it did not, above all, consider the greater changes in industrial and financial conditions that must be the aftermath of a struggle on such a scale between the commercial countries, which with us, have been the mainspring of the material progress of the world. What is to happen when the war closes, leaving half a continent in ruins, killed or maimed industries and dead and wounded men, the whole structure of the world's activity and intercourse to be rebuilt? What are to be the new conditions under which we as well as others will have to labor; and how may we, by wise forethought at this time, save ourselves from consequences which affect our own country as well as others; from mistakes that may well, if not avoided, write the name of the United States among those of the great sufferers by this war?

One common factor will enter into any adjustment after hostilities have ceased, no matter who may be victors. This is the relation of the supply of capital to the demand for it; and the effect of a changed situation in this respect upon the larger interests of the country, in common with the rest of the world. It would be criminal neglect not to consider this future, and make against it what provision we may be able to. For out of accumulated capital have arrisen all the successes of industry and applied science, all the comforts and ameliorations of the common lot. Upon it the world must depend for the process of reconstruction in which all have to share. And the need of available capital in the period following the close of this war will constitute one of the greatest problems that the world has had to face.

Before the outbreak, these warring countries had already strained their credit to the breaking point, to provide for internal development and at the same time maintain their enormous military and naval establishments. The combined debts of the five principal nations now fighting amounted, in 1912, to more than twenty-three billion dollars. They borrowed several billions more in the following two years. Their expenditures during the continuance of hostilities run from twenty-five million dollars a day to twice that sum, according to the activity of movement. In the first thirty days their borrowings or anticipations of credit through note issues ran again into the billions. As soon as peace approaches, not only will all these expenditures and forced loans have to be consolidated and secured on some basis to avoid national bankruptcy, but the financial strain will really only have begun.

The billions upon billions worth of property destroyed will have to be replaced. Granting that a sadder and a wiser world shall determine never again to permit the creation of mighty military establishments which can have no other use than the provoking of war, the amount of money and credit required merely to make good the ravages of the conflict is beyond estimate. Whole cities must be rebuilt. Whole agencies of commercial progress, like the German merchant marine, must be renewed. The annual production of wealth will be lessened by the total labor product of the million or more workers who have given their lives during the conflict. One conclusion stands out more prominently than any other when we come to consider the certain conditions following the conclusion of peace, no matter who triumphs and no

matter what its terms. This is that there will be such a relative scarcity of available capital as the world has not seen for a century or more, while the demand for it will be greater than the world has ever known.

Cash and credit will, therefore, in the United States as elsewhere, command higher rates and be more difficult to obtain, probably, than within at least any recent experience. There can be no relief from outside, for the condition must be world-wide. Capital is the most cosmopolitan as well as the most fluid of all the world's resources. In ordinary times it flows instantly from point of supply to that of demand. The nation with a money surplus relieves that with a deficit. But this deficit will be as international as industry itself. The inequality of capital to the work to be performed will be a world condition. It may affect us almost as seriously as those whose homes and industries lie in ruins about them. And it is just this possibility that we should now acknowledge, study and endeavor to prevent.

The largest single industry in the United States is the tilling of the soil, and this will suffer least of all. Our farmers are gathering crops of unprecedented abundance, and marketing some of them at the highest prices received in recent years. Whatever else the survivors of the war abroad may lack, they must have food. The farmer needs no considerable supply of extra capital. He has been, on the whole, helped or not hurt by this war; and it will continue to be so. And he is sure, through the working of the new banking law, of money enough to move his crops and finance his legitimate agricultural operations. So he may be dismissed with no more than such temporary and incidental relief as the passing circumstances of the present season may call for.

The next greatest industry is the operation of the railroads of the United States; and here we find a situation greatly different. The country has taken measures to assist interests immensely inferior. Our commerce is, most wisely, helped in every way possible to tide over the momentary interruptions of war. Our manufacturers are to be helped to reach their markets wherever possible; while movements are under way that will go far towards turning over to them a share of the business formerly done by some of the combatants who will not be in a position for years to come, if ever, to regain the trade that they have lost. But, while the president, in response to an appeal by a committee of business men, has expressed in general terms his opinion that the railroads should receive some consideration, nothing has been done nor is there immediate prospect of definite and effective action. Yet, without the railroad, without its unimpaired service and its constant extension and improvement, neither the farmer nor the merchant nor the manufacturer nor the consumer can prosper.

It should be obvious to every one that the railroads must be so treated that they can at least earn in part and borrow in part the vast sums which they are going to require. Unless they can earn, and earn more liberally than in the past, they could scarcely borrow even in such a market as that of the first six months of this year. In the financial market created as a consequence of this war, they will not be able to borrow at all, or only on unfavorable terms and to a limited extent. With pressure upon them from all sides for more wages, more taxes, more facilities, more kinds of costly service and more money to pay the salaries of state and national agencies charged with the never-

ending task of investigation and inquisition, they cannot even maintain the unsatisfactory rate of earnings of their recent past. This is not the argument of an advocate for a cause; it is the conclusion drawn from official facts.

According to the latest figures given out by the Interstate Commerce Commission, which are those for the year 1913, the total par value of outstanding railway capital in the United States is only a little short of $20,000,000,000. Of the total capital stock, almost exactly one-third paid no dividend whatever. On over ten per cent of the total funded debt, no interest was paid. It will take some unusual inducement to tempt capital, even if over-abundant and seeking for investment, to loan in large volume an employment showing such a rate of return. For even the stock that paid dividends averaged only 4.28 per cent; and it will be a long time before anybody borrows money again in the open market on the best security at any such rate as that.

The work done by the railroads increased in 1913 in every direction. More passengers, more ton miles, more tons of freight per train mile, work and efficiency were growing. Yet the increase in total operating revenue was but ninety million dollars more than the increase in operating expense, leaving out of account the great increase in other items of expenditure. The present situation is disclosed by some quite reliable figures from other sources, which carry the facts down to a date later than that covered by the last complete official report.

The railroads east of the Mississippi and north of the Potomac and Ohio rivers, in their statement filed with the Interstate Commerce Commission this spring,

show that in the last ten years population in their territory had increased 17 per cent, freight traffic 53 per cent, passenger traffic 42 per cent and mileage only 6½ per cent. The thirty-five principal railroads in this territory proved that since 1910, they had added $659,000,000 to their property investments; and that their net earnings were $16,311,000 less last year than they were then, although their gross earnings were $186,775,000 more. All had been eaten up by additional compulsory expenses and taxes. And this affects not merely the holders of stock, more widely diffused among persons of moderate means than ever before, but the more than 1,800,000 employes whose wages cannot be maintained if railroad earnings are reduced arbitrarily below a given point.

The Chicago Bureau of Railway News and Statistics has carried the figures right down to the present day. While they are not complete or official, yet, so far as they go, they are computed from reports received by the Interstate Commerce Commission. These show that, for the fiscal year ended June 30, 1914, the gross operating revenues of the railroads of the United States were nearly $80,000,000 less than those of the year before. The ratio of operating expenses, which for 1913 reached the high figure of 69.40 per cent, went to 72.33 for 1914, and in the last six months of the year averaged 75.70. The total taxes paid by the railroads of the country were a little over $80,000,000 in 1907 and in 1914 they were nearly $142,000,000. Yet between 1907 and 1913 the average freight receipts of the railways of the country had been reduced from 7.59 to 7.29 mills per ton per mile, a reduction that meant to the railroads $90,000,000 lost revenue. During all this time, wages, supplies and

pretty nearly every item on the expense list have shown a steady increase.

Now these are the facts with which the railroads of the country are soon to confront the abnormal conditions that will follow the close of the great European war. Seven years ago a conservative calculation showed that they needed a new investment of five billion dollars, not to provide for future growth, but merely to do the business that was then offered to them. The need for such investment and the amount of it required to raise the facilities of the railroads to the level of the demands made upon them by the public have grown each year since then. With the new stimulus which our people reasonably expect after peace is established, the new markets to be satisfied, the new demands filled, all involving additional demands upon the carrier, his machine will break down hopelessly unless it can be made more adequate. That can be done only by securing the investment of enough capital. It could not be done today if the supply of capital and the demand for it stood relatively as they did six months ago. To imagine that it can be done when there is such a poverty of available capital as there will be for ten, twenty, possibly more years to come, is absurd.

What are likely to be the effects at home of conditions which surely approach if no preventive is provided? There are probably fifteen to sixteen billions of American railroad securities held at home, and from three to five billions held abroad. What must happen to these securities if nothing is done? To look only at the probable action of the foreign holder, so soon as the exchanges are opened once more, what is he likely to do with property averaging him a return of four or

five per cent, in another country, when the reconstruction of industry at home is calling for all available capital at a much higher interest rate? What is likely to be the effect upon the railroads, upon the credit of the country, upon the gold supply and the whole financial system, if the holders of these securities are virtually compelled, as sound business men looking for the highest average rate of profit, to dump any such quantity of their holdings upon the markets of the United States? What must be the effect upon business, credit and banking of so profound a disturbance in the basis of such an enormous financial and industrial interest?

I have stated in outline the main facts of the after-the-war situation as it relates to the railroads. Through them it relates to every business and to every family and every man in the country. No general unsettling or convulsion in values can occur without injuring every fibre in the industrial fabric. Of all the possibilities that the future holds, under the menace that a world-wide conflict has created, this is by far the most serious for the people of the United States. Many of the other interests affected have solicited or received assistance from the government. The railroads require a loosening of the bonds which even in ordinary times clasp them so tightly that they cannot give to the public the best service of which they are capable. It needs no reversal of general policies, no unsettling of the relation between the railroads and the government,—but an agreement upon just two things; first, a general permission to all the railroads to advance rates, if they find it necessary, to not to exceed a certain per cent of the rates at present in force; second, the assurance by common consent of the leaders of

public opinion and political action that there will be no more legislation restricting railroad activities, lessening receipts or increasing their expenditures.

The magnitude and the urgency of this matter have not yet impressed themselves duly upon the people of this country. They have been too stunned by the awful and unexpected spectacle abroad, too absorbed in the progress of the most terrible event in history, too involved in study of the immediate consequences which had to be faced almost in the day that they were born, to realize the railroad situation in the new light thrown upon it by the lurid flames of conflict. But it cannot be relegated to a later time or an inferior place. The railroad is the sap of the industrial tree. It is the speed regulator of industry. It is the thermometer of credit. Its stability, its prosperity, its ability to confront with confidence a totally new era in the capitalistic and credit conditions of the world must be protected and assured. No duty devolving upon those who sit in the watchtower of the world while nations sway and fall below them, studying how to guard ourselves against the calamities that their ambition and hate and faith in force threaten to send on us as well as on them, can take precedence of this.

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